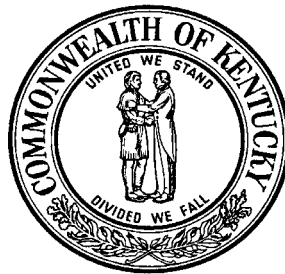


**REPORT OF THE AUDIT OF  
KENTUCKY ARTISAN CENTER AT BEREA**

**For The Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
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## **CONTENTS**

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF NET ASSETS .....	13
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS .....	14
STATEMENT OF CASH FLOWS .....	15
NOTES TO THE FINANCIAL STATEMENTS .....	19
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	27





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Board of Directors  
Kentucky Artisan Center at Berea  
P.O. Box 280  
Berea, Kentucky 40403

We have audited the accompanying financial statements of the Kentucky Artisan Center at Berea, a discretely presented component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Kentucky Artisan Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Artisan Center as of June 30, 2005, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2005 on our consideration of the Kentucky Artisan Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

October 17, 2005

**KENTUCKY ARTISAN CENTER at BEREA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

Management's discussion and analysis of the financial performance of the Kentucky Artisan Center at Berea (Center) provides an overview of the financial activities of the Center for the year ended June 30, 2005, and should be read in conjunction with the financial statements, which begin on page 12.

The Center was created as an economic development initiative to encourage educational and cultural activities, public gatherings, and retail sales of Kentucky artisan arts and crafts. The operations of the Center began in July of 2003.

The Center is accounted for as an enterprise fund, reporting on all of the activity's assets and liabilities using the accrual basis of accounting much like a private business activity. Because the Center provides a financial benefit to the Commonwealth of Kentucky, it is being reported as part of the Commonwealth's reporting entity in the Comprehensive Annual Financial Report (CAFR) as a discretely presented component unit. This annual report consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules.

Financial Highlights

- FY 2005 retail sales of artisan products totaled \$1,130,738, an increase of \$211,952 (23%) over FY 2004 sales.
- The Center assumed operation of the Café on November 17, 2004. Café revenues for the remainder of FY 2005 totaled \$168,673. In FY 2004 and part of FY 2005, the Center contracted with an outside vendor for operation of the Café. The financial results of the Café while under vendor operation were excluded from the Center's FY 2004 and FY 2005 financial reports.

Overview of Financial Statements

The Statement of Net Assets presents information on all of the Center's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Center's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

**KENTUCKY ARTISAN CENTER at BEREA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

---

The Statement of Cash Flows presents the receipts and usage of cash and cash equivalents. Only transactions that affect the Center's cash account typically are reported in the Statement of Cash Flows.

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the statements. The notes to the financial statements can be found on pages 17 through 23.

Financial Analysis

Net assets may serve over time as a useful indicator of the Center's financial position. For the fiscal year ended June 30, 2005, assets exceeded liabilities by \$9,335,607. The largest portion of the Center's net assets (89%) (see Figure A) reflects its investment in capital assets (i.e., land, buildings, equipment, and fixtures).

- Total Assets  
Total assets consist primarily of cash and cash equivalents, investments, inventories, and capital assets.

Capital Assets

As a newly opened facility in FY 2004, the Center's investment in capital assets was substantial. Funding for the purchase of significant capital assets was provided by the Commonwealth of Kentucky, as part of the biennial budget, appropriated by the legislature in 1998 and 2000. Capital assets include buildings, kitchen equipment, maintenance equipment, decorative window panels, furnishings, retail fixtures, and data processing equipment. During FY 2005 the Center's capital asset additions totaled \$47,261, and include the costs for landscaping and construction completion.

Capital assets net of accumulated depreciation amount to \$8.39 million. See Note 4 for additional information related to capital assets.

- Total Liabilities  
Liabilities totaled \$95,633 and include accounts payable, compensated absences, and deferred revenue. Deferred revenues consist of unexpired gift certificates and room rental fees collected in FY 2005 for events that will be held in FY 2006. The noncurrent liability is the estimated payable for the employees' compensated absences. The decrease in the compensated absences balance (\$42,487 or 89.7%) may be attributed to the annual leave usage and compensatory leave usage during FY 2005, as well as the change in the factor used in calculating the estimate.

Table 1 below presents the Center's condensed statement of net assets as of June 30, 2004, and June 30, 2005, derived from the Statement of Net Assets for the respective years.



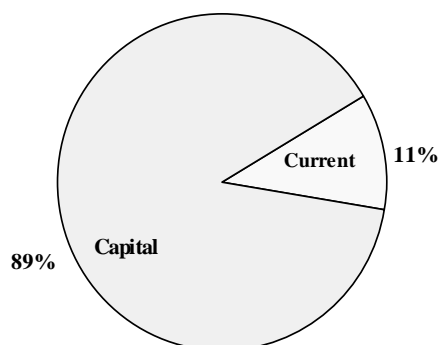
**KENTUCKY ARTISAN CENTER at BEREA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

---

**Table 1**  
**Condensed Statement of Net Assets**  
**As of June 30**

	<b>2005</b>	<b>2004</b>	<b>Percentage Increase (Decrease)</b>
Current Assets	\$ 1,040,400	\$ 1,327,110	-21.6%
Capital Assets-net	<u>8,390,840</u>	<u>8,485,952</u>	-1.1%
Total Assets	<u>9,431,240</u>	<u>9,813,062</u>	-3.9%
Current Liabilities	90,768	61,980	46.4%
Noncurrent Liabilities	<u>4,865</u>	<u>47,352</u>	-89.7%
Total Liabilities	<u>95,633</u>	<u>109,332</u>	-12.5%
Investment in Capital Assets, Net of Related Debt	8,390,840	8,485,952	-1.1%
Unrestricted	<u>944,767</u>	<u>1,217,778</u>	-22.4%
Total Net Assets	<u><u>\$ 9,335,607</u></u>	<u><u>\$ 9,703,730</u></u>	-3.8%

**Figure A**  
**Kentucky Artisan Center at Berea**  
**Assets**  
**FYE 6/30/05**



**KENTUCKY ARTISAN CENTER at BERE A**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

---

Operating and Nonoperating Revenues

Revenues generated from the Center's sales and services of Kentucky artisan arts and crafts and Café operations totaled \$1,299,411 for FY 2005, an increase of \$380,623 (or 41.4%) over FY 2004 sales. During the FY 2005 the state contributed \$90,000 toward the Center's personnel services for serving as a welcome center to the Commonwealth of Kentucky. State contributions, however, were significantly less in the Center's second year of operations, with a decrease of \$1,124,754 (92.6%) in funding. (see Figure B) Non-operating revenues include interest income of \$96,193. (See Table 2)

Operating and Nonoperating Expenses

The majority of operating expense is attributable to payroll costs (\$691,026 or 36%) and costs of sales (\$651,160 or 34%) (see Figure C). Increases in personnel costs (26.3%) and costs of sales (38.5%) may be attributed to the Center's increased visitation and especially increased sales, as well as its operation of its Café beginning in FY 2005. Professional fees for FY 2005 (\$106,694) include the costs of labor and materials for Café tile work not already capitalized in FY 2004, professional computer services, temporary employment services, and auditing services. In addition, the Center incurred expenses for advertising and utilities totaling \$89,575 and \$66,768, respectively. During FY 2005, the Center capitalized additional landscaping costs and the cost of completing an exterior shelter for a total of \$47,261. In accordance with the state's fixed asset capitalization policy, asset purchases costing less than \$5,000 were expensed. Equipment, furniture, and fixture purchases falling below the \$5,000 threshold during the fiscal year totaled \$31,539. Straight-line depreciation expense for FY 2005 totaled \$142,374.

Tables 2 and 3 below present the Center's condensed Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2004, and June 30, 2005, and Operating Expenses.

**KENTUCKY ARTISAN CENTER at BEREA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

---

**Table 2**  
**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30**

	<b>2005</b>	<b>2004</b>	<b>Percentage Increase (Decrease)</b>
Operating Revenues:			
Charges for Sales and Services	\$ 1,299,411	\$ 918,788	41.4%
Operating Grants	90,000	1,214,754	-92.6%
Other Revenues	-	15,045	-100.0%
Total Operating Revenues	<u>1,389,411</u>	<u>2,148,587</u>	<u>-35.3%</u>
Total Operating Expenses	<u>1,899,890</u>	<u>1,538,895</u>	<u>23.5%</u>
Operating Income (Loss)	<u>(510,479)</u>	<u>609,692</u>	<u>-183.7%</u>
Nonoperating Revenues (Expenses)	96,193	(441,523)	-121.8%
Income Before Contributions	<u>(414,286)</u>	<u>168,169</u>	<u>-346.4%</u>
Capital Contributions	-	9,535,561	-100.0%
Net Assets, beginning of year	<u>9,749,893</u> *	<u>-</u>	
Net Assets, end of year	<u><u>\$ 9,335,607</u></u>	<u><u>\$ 9,703,730</u></u>	<u>-3.8%</u>

\* Beginning Net Assets as restated (see note 9).

**KENTUCKY ARTISAN CENTER at BERE A**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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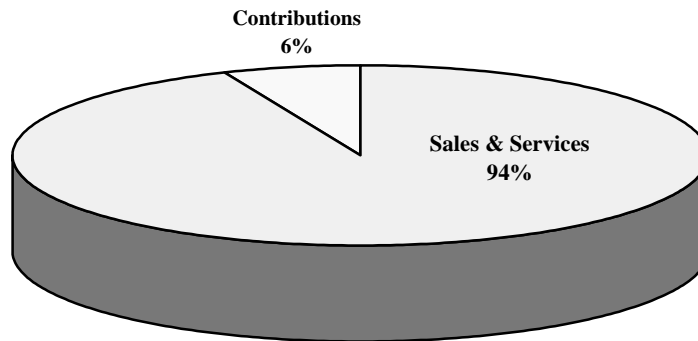
**Table 3**  
**Condensed Financial Information**  
**Operating Expenses**  
**For the Years Ended June 30**

	<b>2005</b>	<b>2004</b>	<b>Percentage Increase (Decrease)</b>
Operating expenses:			
Personnel services	\$ 691,026	\$ 547,095	26.3%
Cost of goods sold	651,160	470,108	38.5%
Depreciation expense	142,374	141,400	0.7%
Professional fees	106,694	-	100.0%
Advertising and promotions	89,575	62,354	43.7%
Utilities and other services	66,768	48,779	36.9%
Supplies	63,888	55,749	14.6%
Equipment, furniture, and fixtures	31,539	160,067	-80.3%
Other general expenses	29,770	26,471	12.5%
Travel	12,205	7,564	61.4%
Rentals	8,904	10,055	-11.4%
Postage	5,987	9,253	-35.3%
Total Operating Expenses	<u>\$ 1,899,890</u>	<u>\$ 1,538,895</u>	23.5%

**KENTUCKY ARTISAN CENTER at BEREA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

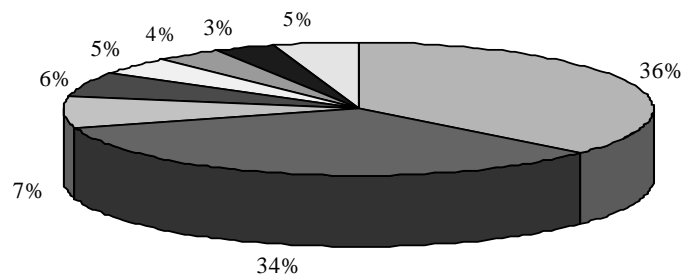
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**Figure B**  
**Kentucky Artisan Center at Berea**  
**Revenue Sources**



**Figure C**  
**Kentucky Artisan Center at Berea**  
**Operating Expenses**  
**FYE 6/30/05**

Personnel services	\$ 691,026	36%
Cost of sales	651,160	34%
Depreciation	142,374	7%
Professional fees	106,694	6%
Advertising	89,575	5%
Other	88,405	5%
Utilities	66,768	4%
Supplies	63,888	3%
Total Operating Expenses	\$1,899,890	



**KENTUCKY ARTISAN CENTER at BEREA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

---

Economic Factors

The Center anticipates receipt of \$250,000 state financial assistance in FY 2005 for the cost of operations. Operating expenses will be closely monitored by the Center in order to maximize operating profits.

The Center has made no capital construction budget requests for the near future, but is requesting establishment of a \$45,000 maintenance pool in FY 2007.

Requests for Information

This financial report is designed to provide the public and other interested parties with an overview of the financial results of the Center's activities and to show the Center's accountability for the revenue that it generates. If you have any questions about this report or need additional financial information, contact the Commerce Cabinet, Department of Parks.

## **BASIC FINANCIAL STATEMENTS**





**KENTUCKY ARTISAN CENTER at BEREA**  
**STATEMENT OF NET ASSETS**  
June 30, 2005

**ASSETS**

## Current assets:

Cash and cash equivalents (Note 2, Note 3)	\$ 156,507
Imprest cash	27,329
Investments	510,725
Inventories	345,839
Total current assets	<u>1,040,400</u>

## Noncurrent assets:

## Capital Assets (Note 4):

Land	1,166,778
Building	6,569,676
Equipment	640,965
Fixtures	297,194
Less: Accumulated depreciation	<u>(283,773)</u>
Total noncurrent assets	<u>8,390,840</u>

**Total Assets**9,431,240**LIABILITIES**

## Current liabilities:

Accounts payable	56,954
Compensated absences	32,952
Deferred revenue	862
Total current liabilities	<u>90,768</u>

## Noncurrent liabilities:

Compensated absences	<u>4,865</u>
Total noncurrent liabilities	<u>4,865</u>

**Total Liabilities**95,633**NET ASSETS**

Invested in Capital Assets, net of related debt	8,390,840
Unrestricted	944,767
<b>Total Net Assets</b>	<u><u>\$ 9,335,607</u></u>

The accompanying notes are an integral part of the financial statements.

**KENTUCKY ARTISAN CENTER at BEREA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
For The Year Ended June 30, 2005

**Operating Revenues:**

Charges for Sales and Services	\$ 1,299,411
Contributions	<u>90,000</u>
Total Operating Revenues	1,389,411

**Operating Expenses:**

Personnel services	691,026
Cost of goods sold	651,160
Depreciation expense	142,374
Professional fees	106,694
Advertising and promotions	89,575
Utilities and other services	66,768
Supplies	63,888
Equipment, furniture, and fixtures	31,539
Other general expenses	29,770
Travel	12,205
Rentals	8,904
Postage	<u>5,987</u>
Total Operating Expenses	1,899,890

<b>Operating loss</b>	<u>(510,479)</u>
-----------------------	------------------

**Nonoperating revenues (expenses):**

Interest Income	<u>96,193</u>
Total nonoperating revenues (expenses)	96,193

<b>Net loss</b>	(414,286)
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<b>Decrease in Net Assets</b>	<u>(414,286)</u>
-------------------------------	------------------

<b>Net Assets, July 1, 2004 Restated (Note 9)</b>	<u>9,749,893</u>
<b>Net Assets, June 30, 2005</b>	<u><u>\$ 9,335,607</u></u>

The accompanying notes are an integral part of the financial statements.

**KENTUCKY ARTISAN CENTER at BEREA**  
**STATEMENT OF CASH FLOWS**  
For The Year Ended June 30, 2005

**Cash flows from operating activities:**

Cash received from customers	\$ 1,299,411
Cash received from contributions	90,000
Cash payments to suppliers and services	(1,055,261)
Cash payments for personnel services	(770,846)
Net cash used in operating activities	<u>(436,696)</u>

**Cash flows from capital and related financing activities:**

Acquisition of capital assets	(47,261)
Net cash used in capital and related financing activities	<u>(47,261)</u>

**Cash flows from investing activities:**

Proceeds from the Sale of investments	502,918
Interest and dividends on investments	96,193
Net cash provided by investing activities	<u>599,111</u>

Net increase in cash and cash equivalents	<u>115,154</u>
---	----------------

Cash and Cash Equivalents, July 1, 2004	<u>68,682</u>
Cash and Cash Equivalents, June 30, 2005	<u><u>\$ 183,836</u></u>

**Reconciliation of operating loss to net cash used in operating activities:**

Operating loss	(510,479)
Adjustments to Reconcile operating loss to net cash used in operating activities:	
Depreciation	142,374
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Inventories	(54,891)
Increase (decrease) in liabilities:	
Accounts Payable	2,126
Deferred Revenue	(370)
Other Liabilities - Compensated Absences	(15,456)
Net cash used in operating activities	<u><u>\$ (436,696)</u></u>

The accompanying notes are an integral part of the financial statements.

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## **NOTES TO THE FINANCIAL STATEMENTS**



**KENTUCKY ARTISAN CENTER at BEREA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2005**

**INDEX FOR**  
**NOTES TO THE FINANCIAL STATEMENTS**

Note 1 - Organization .....	20
Note 2 - Summary of Significant Accounting Policies .....	20
Note 3 - Cash, Cash Equivalents, and Investments .....	23
Note 4 - Capital Assets .....	24
Note 5 - Disaggregation of Accounts Payable .....	24
Note 6 - Compensated Absences .....	25
Note 7 - Retirement Plan and Employee Benefit Plan .....	25
Note 8 - Related Parties .....	26
Note 9 - Changes in Accounting Principles, Reporting Practices, and Prior Period Adjustments .....	26

**KENTUCKY ARTISAN CENTER at BEREA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 1 - Organization**

The Kentucky Artisan Center at Berea (the Center) was created during the Governor Paul E. Patton administration as an economic development initiative. Executive Order 99-331 established the Center for the purpose of hosting various educational exhibitions, public gatherings, cultural activities, generating retail sales of arts and crafts, and hosting other cultural activities for the state of Kentucky. The Center is designed to be an economic generator both on site through sales and throughout the state through referrals and information provided. Products sold are all made in Kentucky, and include crafts, arts, specialty foods, music recordings, videotapes, and books.

The Center also maintains and operates the Café, located within the facility. During FY 2005 the Center took over the operations and staffing for the Café, previously operated under vendor contract during FY 2004.

The Center is a state authority that was originally administratively attached to the Tourism Development Cabinet, and is now attached to the Department of Parks in the Commerce Cabinet.

The funds for construction of the site were appropriated by the Kentucky legislature in 1998 and 2000. The development of the Center and the oversight of its activity is provided by a thirteen (13) member board of directors, the Kentucky Artisan Center at Berea Authority Board, and assisted by numerous partnerships among cabinets within state government, with city and county government, with colleges, with other organizations and agencies, and with individuals interested in the Center's mission and goals.

**Note 2 - Summary of Significant Accounting Policies**

**Reporting Entity:**

In accordance with the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Center has adopted the provisions under which the financial statements include all the organizations, activities, functions, and component units for which the Center is financially accountable. Financial accountability is defined as the appointment of a



**KENTUCKY ARTISAN CENTER at BEREA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

The Center has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the Center's financial statements. In addition, since the Center provides a financial benefit to the Commonwealth of Kentucky, the Center is part of the reporting entity of the Commonwealth of Kentucky and is, therefore, included in the Commonwealth's Annual Financial Report as a discretely presented component unit. The accompanying financial statements are not intended to present the financial position or the results of operations and cash flows of the Commonwealth of Kentucky or its proprietary funds.

**Basis of Accounting:**

The Center's financial statements are prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Center are discussed below.

The financial statements of the Center have been presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Accordingly, revenues are recognized when they are earned and become measurable, and expenses are recognized at the time liabilities are incurred.

**Basis of Presentation:**

The Center follows the provisions of the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - or State and Local Governments, Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures, which establish the financial reporting standards for all state and local government entities. Accordingly, the Center is reported as an Enterprise Fund of the Commonwealth of Kentucky.

**KENTUCKY ARTISAN CENTER at BEREA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

The accompanying Statement of Revenues, Expenses, and Changes in Net Assets reports revenues and expenses as either operating or non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the ongoing operations. The principal operating revenues of the Center are charges to customers for sales of Kentucky made products, as well as income derived from Café operations. Operating expenses include the cost of sales and services, selling and administrative expenses, marketing expenses and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

The Kentucky Artisan Center currently uses a commercial bank for depositing funds received from daily activity. These funds are then electronically transferred to the Commonwealth of Kentucky's depository. For financial statement purposes, the Center considers all highly liquid investments with maturity of three months or less to be cash equivalents.

Investments:

The Center participates in the Commonwealth of Kentucky's investment pool, which holds investments both for its own benefit and as an agent for other related parties. Investments are valued at their fair values in the Statement of Net Assets. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

Inventories:

Inventories primarily consist of merchandise and food for resale and include Kentucky artisan crafts, arts, specialty foods, music recordings, videotapes, and books. Inventories are valued at average cost as of June 30, 2005. Average cost for all items is updated continuously by the Center's point of sale software.

**KENTUCKY ARTISAN CENTER at BEREA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

Capital Assets:

Capital assets, which include property, plant, and equipment, are carried at cost less accumulated depreciation. The Center capitalizes capital assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. All land and infrastructure are capitalized. Buildings and equipment are capitalized when the acquisition cost is \$5,000 or greater.

Depreciation on capital assets is computed using the straight-line depreciation method over the estimated useful lives of the assets. The following table summarizes the estimated useful lives used in computing depreciation:

<u>Asset</u>	<u>Useful Life</u>
Buildings and Improvements	10 - 75 years
Machinery and Equipment	3 - 25 years
Furniture and Fixtures	3 - 25 years

Depreciation expense for the year ended 2005 was \$142,374.

Deferred Revenue:

Deferred revenues are treated as liabilities until the revenue recognition requirements are met.

**Note 3 - Cash, Cash Equivalents, and Investments**

The Center participates in the State's cash and investment pool, which is available for use by all funds and component units under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. At June 30, 2005, the carrying amount of the Center's deposits, including imprest cash funds, was \$671,085. The State's bank balance is covered by Federal Depository Insurance or by collateral held by the State or the State's agent in the State's name. The risk disclosures related to deposits and investments are reported in the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

The Center also had non-pooled deposits totaling \$27,329 at the end of the fiscal year, comprised of a temporary bank deposit account and an imprest cash account. All bank deposits at year-end were covered by depository insurance through the Federal Deposit Insurance Corporation.

**KENTUCKY ARTISAN CENTER at BEREA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 4 - Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
<b>Capital Assets not being depreciated:</b>				
Land	\$ 1,139,000	\$ 27,778	\$ -	\$ 1,166,778
Total nondepreciable capital assets	<u>1,139,000</u>	<u>27,778</u>	<u>-</u>	<u>1,166,778</u>
<b>Capital Assets being depreciated:</b>				
Building	6,550,193	19,483	-	6,569,676
Equipment	640,965	-	-	640,965
Fixtures	<u>297,194</u>	<u>-</u>	<u>-</u>	<u>297,194</u>
Total Capital Assets being depreciated	<u>7,488,352</u>	<u>19,483</u>	<u>-</u>	<u>7,507,835</u>
<b>Less Accumulated Depreciation for:</b>				
Building	87,336	88,309	-	175,645
Equipment	32,399	32,399	-	64,798
Fixtures	<u>21,665</u>	<u>21,665</u>	<u>-</u>	<u>43,330</u>
Total Accumulated Depreciation	<u>141,400</u>	<u>142,373</u>	<u>-</u>	<u>283,773</u>
<b>Net Capital Assets</b>	<u>\$ 8,485,952</u>	<u>\$ (95,112)</u>	<u>\$ -</u>	<u>\$ 8,390,840</u>

**Note 5 - Disaggregation of Accounts Payable**

Accounts payable are amounts owed by the Center as of June 30, 2005. The liabilities will be paid within one year and are therefore considered current. The following table shows the disaggregation of the amounts reported as accounts payable as of June 30, 2005.

**Current Payables**

Personnel Services	\$ 31,695
Merchandise for Resale	13,978
Other	<u>11,281</u>
<b>Total Current Payables</b>	<u>\$ 56,954</u>

**KENTUCKY ARTISAN CENTER at BEREA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 6 - Compensated Absences**

The Center follows the policy of the Commonwealth of Kentucky to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15 hours per month, determined by the length of service, with maximum accumulations ranging from 30 to 60 days. The estimated liability and change in the estimated liability for compensated absences from the Center as of June 30, 2005 are:

	<b>Beginning</b>				<b>Amount Due</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending</b>	<b>Within One</b>
					<b>Year</b>
<b>Annual Leave</b>	\$ 32,059	\$ 11,564	\$ 7,654	\$ 35,969	\$ 31,304
<b>Compensatory Leave</b>	21,214	9,141	28,507	1,848	1,648
<b>Total</b>	<u>\$ 53,273</u>	<u>\$ 20,705</u>	<u>\$ 36,161</u>	<u>\$ 37,817</u>	<u>\$ 32,952</u>

It is the policy of Department of Parks to record the cost of sick leave when paid. Generally, sick leave is paid only when an employee is absent due to illness, injury, or related family death. Sick leave accumulated in excess of six months is added to an employee's years of service at the time of retirement. There is no liability recorded for sick leave at June 30, 2005. The estimated accumulated unused sick leave for the Center employees at June 30, 2005 was \$49,825.

**Note 7 - Retirement Plan and Employee Benefit Plan**

All full time employees of the Center who work more than one hundred hours per month participate in a multiple-employer cost sharing defined benefit pension plan, the Kentucky Employees Retirement Systems (KERS), administered by the Board of Trustees of Kentucky Retirement Systems. The payroll for the Center covered by the KERS for the year ended June 30, 2005, totaled approximately \$373,947.

Employees who retire at or after age 65 with 48 months of credited service are entitled to a retirement benefit based on a range of 1.97% to 2.2% of their final average salary multiplied by their years of service. Final average salary is the employee's average of the three or five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest on reaching five years of service. Vested employees may retire after twenty-seven years of service and receive full benefits; or retire after age 55 and receive reduced benefits. The KERS also provides death and disability benefits. Benefits are established by Kentucky Revised Statutes.

**KENTUCKY ARTISAN CENTER at BEREA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 7 - Retirement Plan and Employee Benefit Plan (Continued)**

As required by the Kentucky Revised Statutes, employees must contribute 5% of their salary to the KERS. In addition, the Statute requires all participating KERS agencies to contribute 5.89% of the covered employees' eligible salary. During FY 2005, the Center's contribution into KERS for eligible employees' retirement totaled \$24,744.

The ten-year historical trend information showing KERS progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Employees Retirement System's Annual Financial Report. Additional disclosures related to the defined benefit plan are included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

In addition to the above defined benefit pension plan, full time employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are defined as Section 457 and Section 401(k) plans under the Internal Revenue Code. Both plans permit employees to defer a portion of their annual salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. Additional disclosures related to these plans are included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

**Note 8 - Related Parties**

On occasion, board members or their organizations, colleges, or governmental units will use the Center's private dining and conference rooms at no charge. In addition, by statute two members of the Authority Board are on the staff of Berea College, and the Center purchases items for resale from Berea College's Crafts Program. The College regularly sells work wholesale to other retailers.

**Note 9 - Changes in Accounting Principles, Reporting Practices, and Prior Period Adjustments**

The net assets as previously reported have been restated to properly reflect an adjustment to the FY 2005 beginning inventory. Inventory (i.e., merchandise available for sale) was understated by \$46,163 as of June 30, 2004. The net effect of this change is to increase beginning net assets by the \$46,163.



CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Board of Directors  
Kentucky Artisan Center at Berea  
P.O. Box 280  
Berea, Kentucky 40403

George Ward, Secretary  
Commerce Cabinet

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed in Accordance With Government Auditing Standards

We have audited the financial statements of the Kentucky Artisan Center, a discretely presented component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kentucky Artisan Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Board of Directors  
Kentucky Artisan Center at Berea  
P.O. Box 280  
Berea, Kentucky 40403

George Ward, Secretary  
Commerce Cabinet  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kentucky Artisan Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Kentucky Artisan Center Commission, and the Kentucky Artisan Center management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

October 17, 2005



